



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, D.C. 20410-8000

OFFICE OF THE ASSISTANT SECRETARY
FOR HOUSING-FEDERAL HOUSING COMMISSIONER

Special Attention of:

All FHA Approved Mortgagees
All Homeownership Center Directors
All Processing and Underwriting Div. Directors
All Direct Endorsement Underwriters

Transmittal: Handbook **4155.1 REV-5**

Issued: October 20, 2003

1. This Transmits:

Revision 5 of Handbook 4155.1, Mortgage Credit Analysis for Mortgage Insurance, One to Four Family Properties

2. Explanation of Changes:

The Handbook has been updated entirely. All credit policy changes related to loans insured under Sections 203(b) and 234(c) of the National Housing Act and implemented by HUD Mortgagee Letters issued since September 1995 have been incorporated into this Handbook. *For those credit policy revisions not previously announced by mortgagee letters, compliance with these instructions is voluntary immediately and becomes mandatory for all loan applications signed by the borrowers on or after January 1, 2004.*

Mortgagee Letters

All or parts of the below listed Mortgagee Letters (ML) have been incorporated into this Handbook revision. When all of the information from a particular ML has been incorporated into the Handbook, the ML is superceded. When only a part of the information in an ML has been incorporated into the Handbook, that part is described and the Handbook supercedes it. The parts of an ML not incorporated into the Handbook remain in effect.

ML

95-46 This ML on Energy Efficient Mortgages (EEMs) is superceded by this Handbook. All information relating to EEMs is now included in Section 2-20 of the Handbook.

95-49 This ML is superceded. The information concerning Refinance Authorization Numbers has been included in Section 1-10.

96-10 Paragraph II concerning Refinance Authorizations has been incorporated in Section 1-10 of this Handbook.

HSIP Distribution: W-3-1, W-2, (OGC)(H)(Z); W-3(A)(H)ZAOO), W-4(H), R-1, R-2, R-3, R-3-1(H)(RC); R-3-2, R-3-3, R-6, R-6-1, R-6-2, R-7, R-7-1, R-7-2, R-8, R-8-1

96-18 The provisions of Paragraph I have been incorporated into Section 1-10.

96-38, 96-50, 96-51, 96-53, 96-60, 97-1, 97-3, 97-6, 97-17, 97-19, 97-23, 97-29, 97-32, 97-34, 97-39, 97-42, 98-05, 98-08, 98-10, 98-16, 98-19, 98-21, and 01-07 are all incorporated by this Handbook, Section 2-18, regarding underwriting and eligibility on mortgages for victims of disasters. All except ML 01-07 describe locations declared disaster areas by the President.

96-46 The provisions of this ML relating to permitting mortgages to be in multiples of \$1 instead of \$50 have been incorporated in Section 1-6 and allowing adjustable rate mortgages (ARMs) to be used with Section 203(h) is in Section 2-18.

96-52 This ML is superceded by this Handbook. All information related to nonprofits is incorporated into Section 1-5 and other Departmental issuances.

96-58 This ML is superceded by this Handbook. All information concerning secondary financing of the downpayment provided by family members is incorporated in 1-13.

96-63 This ML is superceded and relates only to mortgage calculations in Alaska and Hawaii now made permanent throughout the United States. All information concerning the calculation of mortgage amounts is in Sections 1-6 and 1-7.

97-10 This ML is superceded by this Handbook. All information relating to EEMs and allowing EEMs to be insured under Section 203(h) is in Section 2-20.

97-26 The borrower credit and capacity issues section of this ML are incorporated into Chapter 2, (except for those related to Section 203(k)).

97-27 This ML is superceded. The information concerning insuring condominium units under 203(h) is incorporated in Section 2-18 and clarification of secondary lending by a family member has been incorporated into Section 1-13. The revised "Important Notice to Homebuyer" disclosure form has been superceded by other Departmental issuances.

97-37 Information concerning the UFMIP has been incorporated into Section 1-6.

97-50 This ML is superceded and relates only to mortgage calculations in Alaska and Hawaii now made permanent everywhere in the United States. The information concerning the mortgage calculation is now contained in Sections 1-6 and 1-7.

98-01 This ML is superceded. The underwriting policies related to ARM's and buydowns have been incorporated into Section 2-14 and the information concerning Homeownership Counseling has been superceded by other issuances.

98-15 The face-to-face interview requirements have been deleted by this Handbook.

98-29 This ML is superceded by this Handbook. All information concerning the calculation of mortgage amounts is in Sections 1-6 and 1-7.

98-31 This ML is superceded by this Handbook. All information concerning the calculation of mortgage amounts is in Section 1-6.

00-08 This ML is superceded by this Handbook. All information concerning the participation of nonprofit organizations (except the restrictions associated with Section 203(k)) is included in Section 1-5 and other Departmental issuances.

00-24 This ML concerning underwriting guidelines for persons with disabilities is superceded by this Handbook. This information has been incorporated in Sections 2-3 and 2-7.

00-28 Gift funds and gift funds documentation has been incorporated into Section 2-10. Prohibiting advance mortgage payments as a condition for making an insured loan is in Section 2-21. The information about distinguishing between assets to close and cash reserves is in Section 2-13.

00-35 This ML is superceded by this Handbook. All information concerning the calculation of mortgage amounts is in Sections 1-6 and 1-7.

00-31 and 00-41 These MLs are superceded by this Handbook. All information concerning the calculation of mortgage amounts is in Sections 1-6 and 1-7.

01-07 The information in this ML concerning the Section 203(h) disaster program is incorporated into Section 2-18.

01-12 This ML is superceded by this Handbook. All information from this ML has been incorporated into Sections 1-10, 1-11 and 1-12.

02-02 The credit policy regarding payment of borrower obligations by nonprofits is included in this Handbook.

03-01 This ML is incorporated into the Handbook. Downpayment Simplification was made permanent by this ML.

Highlights:

The Handbook has been revised to reference the establishment of FHA's Homeownership Centers (HOCs) and delete references to local HUD Field Offices, where appropriate, and to generally update information related to HUD's new organizational structure. In addition, the Handbook contains the following changes:

- Chapter 1-Underwriting the Mortgage: Explains that a borrower can obtain another FHA insured mortgage even if relocation is not employer mandated. Updates requirements with regard to the approval of nonprofit organizations. Explains the statutory changes that have been made to FHA's maximum loan amounts and maximum loan-to-value ratios (LTV). States that buydowns are not permitted to be used with adjustable rate mortgages (ARMs). For three- and four-unit properties, reminds lenders that the borrower's required three months cash reserves cannot be derived from gift funds. Includes the most recent changes to calculating the mortgage amounts for refinances, including streamline refinances. Clarifies that the costs for any secondary financing cannot be included in closing costs for the first mortgage.
- Chapter 2-Mortgage Credit Analysis: Reaffirms the requirements for co-borrowers and co-signors. Requires the lender to determine the residency status for non-US citizens. Emphasizes the documentation needed to verify previous rental or mortgage payment history. Adds guidance concerning a borrower's eligibility when participating in a consumer credit counseling payment program. Requires that the names of all parties to the transaction be checked against HUD's Limited Denial of Participation List and the Federal Government's List of Excluded Parties. Discusses the requirements for gift funds when they are provided at closing. Provides additional guidance for buydowns. Includes the requirement ARMs that the borrower must qualify at the initial interest rate plus one percent if the LTV is 95 percent or greater. Expands the underwriting information for Section 203(h) loans used for victims of natural disasters. Prohibits the "grossing up" of child support income.
- Chapter 3-Documentation and other Processing Requirements: Includes requirements on faxed documents and documents printed from the Internet. Eliminates the need for lenders to conduct face-to-face interviews with borrowers.
- Chapter 4-Assumptions: Clarifies assumption restrictions under the HUD Reform Act of 1989. Clarifies rules regarding the release of liability on assumptions. Provides guidance for establishing creditworthiness of assumptors. Details the documentation requirements for assumptions. Explains the requirements for LTV reduction on mortgages assumed by investors or by owner-occupants as secondary residences.

3. Filing Instructions:

Remove:

Handbook 4155.1 REV-4 and CHG-1

Insert:

Handbook 4155.1 REV-5

Assistant Secretary for Housing-
Federal Housing Commissioner

Paperwork Reduction Act Certification
Mortgage Credit Analysis for Mortgage Insurance, One to Four Family Properties
Handbook HUD 4155.1 REV-5

The information collection requirements contained in this Handbook are covered under the following OMB Approval Numbers:

2502-0036
2502-0059
2502-0189
2502-0265
2502-0494
2502-0538

Public reporting burden for the collection of information is estimated to average 5,822,520 hours. This handbook explains the procedures for determining the creditworthiness and eligibility of mortgage borrowers to obtain FHA insured mortgages. The information will be used to ensure compliance with Single Family Mortgage Credit requirements, including: underwriting a mortgage, mortgage credit conditions, and various forms of documentation required for processing. Response to this request for information is required in order to receive the benefits to be derived. This agency may not collect this information, and you are not required to provide this information unless a currently valid OMB control number is displayed.